

Territorial NEWSLETTER South Asia

EEPC INDIA
ENGINEERING THE FUTURE
Vanijya Bhavan (1st Floor)
International Trade Facilitation
Centre (ITFC)
1/1 Wood Street,
Kolkata - 700016
www.eepcindia.org



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Ravi Sehgal

Chairman's Pen

This version of the South Asia newsletter focuses on the recently published South Asia Regional Economic Outlook by the IMF for October 2018. Led by India the South Asian region remains critical in the Asia Pacific region and boasts of some of the biggest markets globally. However owing to several macroeconomic vulnerabilities of the countries in the region, it has failed to achieve the expected economic growth. The regional outlook by IMF focuses on critical steps that may be taken to enable the region achieve its economic potential.

I sincerely believe that this edition will be insightful for our members and they will enjoy reading it.



Akash Shah

SAARC Territorial Committee Chairman's Note

The December issue of the South Asia newsletter mentions excerpts from the IMF South Asian Regional Economic Outlook for October 2018.

Additionally like our previous issues, an analysis of Indian engineering exports for April-Dec 2018 is also presented in this newsletter from both country-wise and DGCI&S panel-wise perspectives. Other sections include trade news on South Asia, upcoming events in South Asian regions and tenders.

I believe our member exporters will find this newsletter helpful in making business decisions.

Basic Facts South Asia

Grouping: South Asia Association for Regional Cooperation

Area: 5,099,611 km²

Population:
1,713,870,000

GDP: US\$ 3.292 trillion

Countries: Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka

Climate: The climate of South Asia can be divided into three basic kinds: tropical, dry, and temperate

Natural Resources: Rich agricultural land, minerals, energy resource



Excerpts from South Asia Regional Updates by IMF: October 2018

The outlook for the South Asian region remained positive owing to India's ongoing recovery from two transitory shocks and upwardly revised activity in Bangladesh. Due to the primary slowdown in India, Aggregate growth in the region decelerated somewhat to 6.5 percent in 2017 from 6.7 percent in 2016. However it is expected to pick up in the coming days with growth increasing or broadly stable in all countries with the exception of Nepal and Bhutan. The positive economic outlook in the region continues to be driven primarily by domestic demand, with support from favorable financial conditions and improving external demand. Headline inflation is expected to decline in 2017 before rising again in 2018, reflecting mainly changes in food and other commodity prices.

The IMF further adds that the region continues to face macroeconomic and financial vulnerabilities including high levels of distressed assets and the policies in the region should address these issues and support sustained high and socially inclusive growth. Durable and growth-friendly fiscal consolidation remains important in

several other countries, including India, Sri Lanka, Pakistan, and the Maldives. The regional policies also need to address. Finally, structural reforms to overcome supply-side bottlenecks and enhance the functioning of product and factor markets would help support potential growth. Country-wise highlights are given below.

India

Despite progress in advancing reforms, India's income per capita remains low and income disparity has widened. According to the IMF the country should focus on further streamlining the GST rate structure and improving the supporting infrastructure to ease implementation costs particularly for SMEs. There is also a growing need to address the banking weakness. For the medium term, greater infrastructure investment, labor and product market reforms, further trade liberalization and trade and investment reforms are needed to boost competitiveness and productivity. Reforms should also focus on boosting health and education spending, improving human resource, formalization of industry and better access to finance.

Pakistan

While the country experienced a strong economic growth in FY2017/18 (5.8 percent of GDP), macroeconomic imbalances have been rising. The government has taken a number of steps to address these issues and they are in the right direction but not yet sufficient to stabilize the economy. Decisive and comprehensive adjustment policies are required for this purpose which should include allowing for exchange rate flexibility, further tightening monetary policy to instill confidence, and further adjusting fiscal policy to improve debt sustainability and mitigate external pressures. Similarly, additional measures are needed to address losses of state-owned enterprises. Significant external financing will be required to rebuild international reserve buffers. Once stabilization is beginning to take hold, increasing focus is warranted on critical reforms to support macro stability and inclusive growth. The reforms should aim at fostering exports, private investment and job creation, strengthening Pakistan's policymaking framework, and building key institutions.

Bangladesh

The IMF outlook for Bangladesh remains broadly positive. Growth is expected to remain strong, above 7.0 percent, led by private consumption and investment. However, as per IMF maintaining the growth performance may be a challenge for the country in the coming future and will require further increasing investment and upgrading policy-making practices and institutions. With low tax revenue, domestic revenue collection needs to be boosted to provide fiscal space for growthenhancing public investment and social spending. The non-performing loans ratio remains high despite robust economic growth and requires stringent financial sector regulations and supervision. The business environment also needs to be improved to provide alternative sources of long term investment financing.

Sri Lanka

As per IMF, the real GDP growth for the country was subdued at 3.6 percent in 2018, as robust growth in services and agriculture was partly offset by a weaker performance in the construction sector. The positive actions from the authorities include implementation of fiscal consolidation since the last three years under a 3-year IMFsupported program. Financial regulation is improving, including with planned compliance by banks with the Basel III Minimum Capital Requirements by January 2019. Accelerating structural reforms, in line with

the authorities' agenda under Vision 2025 will be instrumental in promoting inclusive growth. Key priorities should include trade liberalization, a business-friendly regulatory environment, climate change and gender budgeting, and better-targeted social protection programs.

Nepal

The country is witnessing expansion in Economic activity. Growth reached 6.3 percent in FY2017/18 (mid-July 2017 to mid-July 2018). There has also been a strong credit expansion fueled by loose monetary conditions and a significant increase in bank's paid up capital. Expansionary policies have also fueled imports into the country. In this scenario Nepal's near-term challenges are to maintain the recent growth momentum and create conditions for sustained high and inclusive growth. Fiscal policy should focus on higher and better-quality public investment and prudent implementation of fiscal decentralization through sustainable intergovernmental fiscal arrangements and the need to build public financial management capacity at the sub-national level. Monetary policy needs to be tightened to keep inflation and balance of payments pressures in check. Structural reform will be key to unlock medium-term growth. Priorities include improving the business climate by fostering competition, reducing the regulatory burden for investment, including in hydropower, and upgrading transportation infrastructure.

Trend of India's Engineering Export with the South Asian Nations

India's engineering exports to Top 5 South Asian countries during Apr-Dec 2018 (All values in USD million)

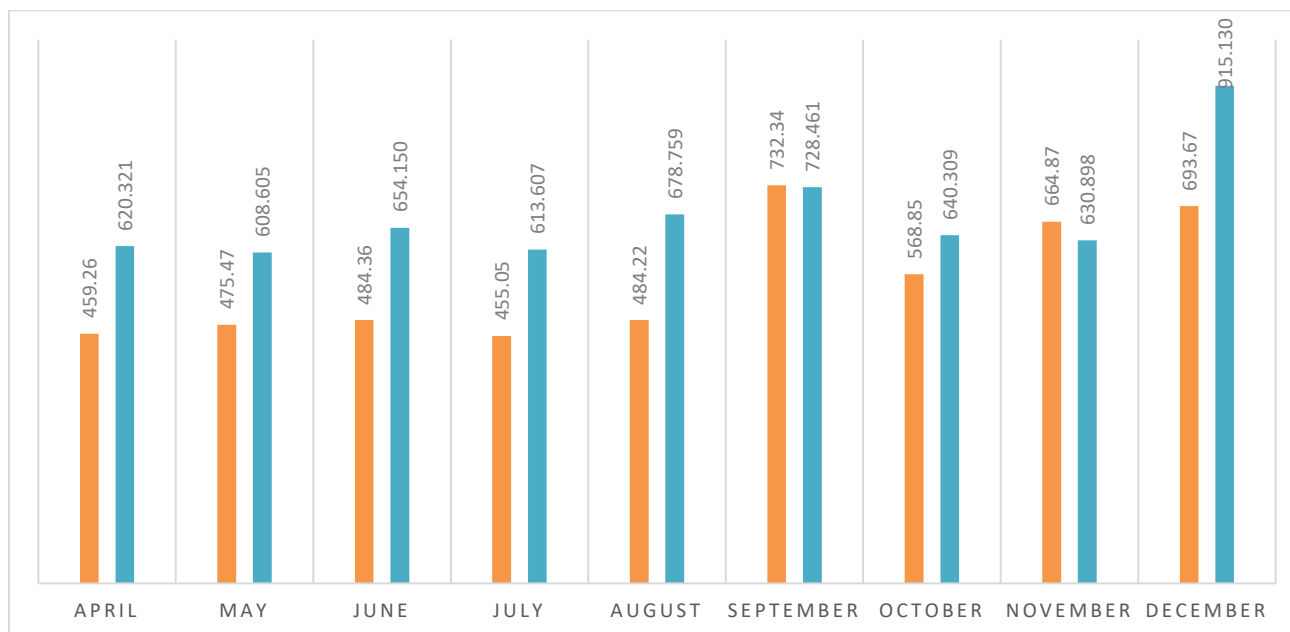
Country	Export in Dec 2017	Export in Dec 2018	Growth (%)	Export in Apr- Dec 2017	Export in Apr- Dec 2018	Growth (%)
AFGHANISTAN	18.55	16.52	-10.95%	86.77	104.10	19.97%
BANGLADESH	250.00	258.56	3.43%	1738.99	2066.46	18.83%
BHUTAN	17.19	24.01	39.67%	149.63	196.20	31.13%
MALDIVES	8.11	2.78	-65.71%	41.32	36.82	-10.89%
NEPAL	246.31	257.31	4.46%	1789.43	2298.39	28.44%
PAKISTAN	20.74	17.24	-16.86%	129.25	135.73	5.01%
SRI LANKA	132.76	338.70	155.12%	1082.70	1252.53	15.69%
SOUTH ASIA	693.67	915.13	31.93%	5018.09	6090.24	21.37%

Source: DGCIS

During December 2018, engineering exports to South Asia increased by 31.93% over December 2017. The substantial increase was attributed to the 155% rise in exports to Sri Lanka, followed by Bhutan (39%). Exports to Afghanistan, Maldives and Pakistan registered negative growth over December 2017. This month, Bangladesh replaced Nepal as the topmost export destination in the region.

In terms of cumulative figures Nepal remained the biggest importer of Indian engineering followed by Bangladesh with impressive growth in imports, 28.44% and 18.83% respectively. In cumulative terms only exports to Maldives experienced a drop of 10.89%.

Month-wise Trend in Total Engineering Export to South Asia (Apr-Dec 2018-19) (Value in USD Million)



Source: DGCIS Data, EEPC Research

Panel-wise trend in engineering exports to South Asia during Apr-Dec 2018

Top 10 engineering panels exported to South Asia during Apr-Dec 2018 are listed below (Value of Exports measured in USD Million)

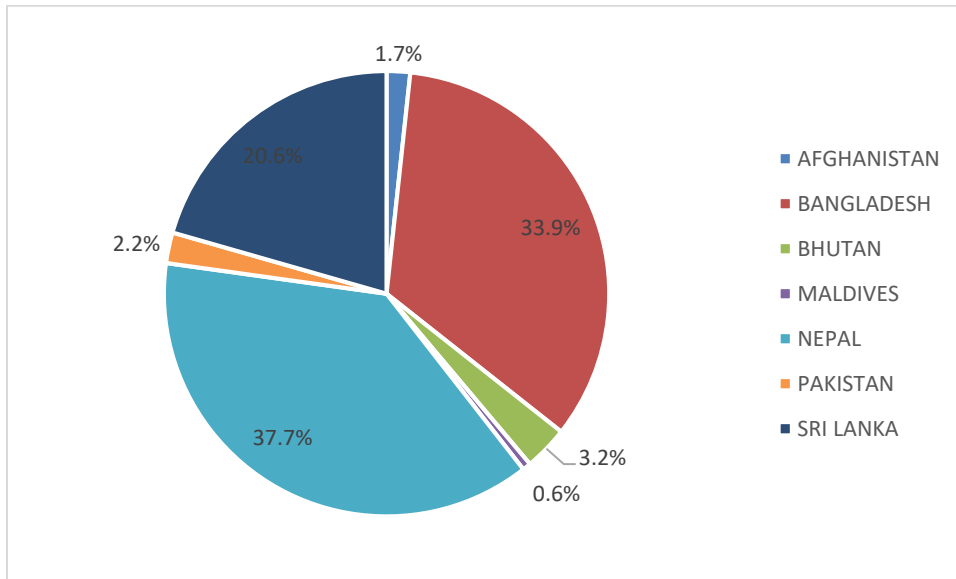
Panel	Export in Dec 2017	Export in Dec 2018	Growth (%)	Export in Apr- Dec 2017	Export in Apr- Dec 2018	Growth (%)
Ships Boats and Flo	0.00	261.92	200.00%	157.14	492.03	213.11%
Iron and Steel	160.28	162.58	1.43%	1087.71	1342.29	23.41%
Industrial Machinery	85.54	76.61	-10.44%	631.42	652.82	3.39%
Motor Vehicle/cars	87.09	75.30	-13.53%	590.87	750.06	26.94%
Two and Three Wheelers	57.49	50.16	-12.74%	524.65	543.10	3.52%
Auto Components/Part	51.86	43.46	-16.19%	346.73	369.50	6.57%
Products of Iron and Steel	52.07	40.04	-23.10%	280.99	282.29	0.46%
Electric Machinery	28.77	39.97	38.93%	228.14	294.92	29.27%
Other Construction Machinery	46.40	32.44	-30.10%	257.07	251.84	-2.03%
Aluminium and products	26.07	27.42	5.18%	194.10	233.93	20.52%

Source: DGCIS

Product group-wise analysis of Indian engineering exports to South Asia showed a sudden rise in the exports of ships boats and floating structure. The other sectors that featured in the top 10 include 'Iron and Steel, Industrial machinery, Motor Vehicle/Cars, Two and three wheelers and Auto component. Barring iron and steel and ships boats and floating structures, electrical machinery and Aluminium and its products all the top 10 engineering product groups exported to South Asian region recorded year-on-year decline.

On a cumulative basis during April to December of 2018-19, Iron and Steel, Motor Vehicle/cars, Industrial Machinery, Two and three wheelers and Ships, boats and floating structures topped the list of engineering product groups exported to South Asia. Substantial growth was witnessed in Ships, boats and floating structure (213%), Motor Vehicle/cars (27%), electric machinery (30%) and iron and steel (23%). All the top 10 exported panels barring other construction machinery recorded positive year-on-year growth during Apr - December 2018-19.

Country-wise Share (%) during Apr-Dec 2018-19



Source: DGCIS Data, EEPC Research

Major Importers of India’s engineering products to South Asia during Apr-Nov 2018-19

Nepal: Nepal was the largest destination for Indian engineering products among all South Asian nations during Apr - Dec 2018-19 with around 40% share.

Top exported Products: Iron and Steel, Motor Vehicle/cars, Other Construction Machinery, Industrial Machinery, Two and Three Wheelers.

Bangladesh: Second largest importer of Indian engineering products among all South Asian nations during Apr - Dec 2018-19 with over 35% share.

Top exported Products: Iron and steel, Motor Vehicle/Cars, Industrial Machinery, Two & three wheelers and Other construction machinery.

Sri Lanka: Sri Lanka was the third largest export destination for India's engineering exports in the South Asian region during Apr - Dec 2018-19 with a share of 17.7%.

Top exported Products: Two and Three Wheelers, Industrial Machinery, Motor Vehicle/cars, Ships Boats and Floating Structure and Products of Iron and Steel.

Anti-dumping measures

- At present, no anti-dumping case on Engineering product being investigated by Nepal, Bangladesh or Sri Lanka, the top three importers of Indian engineering products in South Asian region, against India as per the WTO website.
- On the other hand the WTO website shows no anti-dumping case is being investigated by India at present on imports of engineering products from those three nations.

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Contact: Debolina Mukherjee

Email: dmukherjee@eepcindia.net

Phone no: 033-40120320